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David L. Meier
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February 20, 1997

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FEB 2 0 1997

Federal Communications Commission
Office of Secretary

Mr. William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street NW Room 222
Washington DC 20554

In the Matter of:

Implementation of the Telecommunications Act of 1996;	)	
	)	CC Docket No. 96-150
Accounting Safeguards Under the Telecommunications Act of 1996	)	

Dear Mr. Caton:

Enclosed are an original and eleven copies plus two extra public copies of the Petition for Reconsideration of Cincinnati Bell Telephone Company in the above referenced proceeding. A duplicate original copy of this letter and attached Petition for Reconsideration is also provided. Please date stamp this as acknowledgment of its receipt and return it. Questions regarding these Comments may be directed to me at the above address or by telephone on (513) 397-1393.

Sincerely,

David L Meier

Enclosure

cc: International Transcription Services, Inc.
Ernestine Creech (paper and disk copy)

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FEB 2 0 1997

Federal Communications Commission
Office of Secretary

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Implementation of the	)	
Telecommunications Act of 1996:	)	CC Docket No. 96-150
	)	
Accounting Safeguards Under the	)	
Telecommunications Act of 1996	)	
	)	

PETITION FOR RECONSIDERATION

Cincinnati Bell Telephone Company ("CBT"), pursuant to Section 1.429 of the Commission's Rules,[1] hereby requests the Commission to reconsider its Report and Order in the above-captioned proceeding to the extent that decision requires carriers to record all affiliate transactions that are neither tariffed nor subject to prevailing company prices at the higher of cost and estimated fair market value when the carrier is the seller or transferor, and at the lower of cost and estimated fair market value when the carrier is the buyer or transferee.[2] CBT asserts that by providing an exception to this requirement for companies which employ an affiliated services company to provide centralized companies, the

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[1] 47 C.F.R. § 1.429.

[2] In the Matter of Implementation of the Telecommunications Act of 1996:Accounting Safeguards Under the Telecommunications Act of 1996, CC Docket No. 96-150, Report and Order, released December 24, 1996 and published in the Federal Register on January 21, 1997, at ¶ 147-148.

Commission has placed an unfair burden on smaller carriers who are not structured to take advantage of this exception.

In paragraph 147 of the Report and Order, the Commission addressed valuation methods to be used for the provision of services, conforming the acceptable methods to those which are used to value asset transfers.[3] In Paragraph 148, the Commission provided an exception to this general rule for valuation.[4] This exception provides that when a carrier purchases services from its affiliate that are neither tariffed nor subject to prevailing company prices, and that affiliate exists solely to provide services to members of the carrier's corporate family, those services are to continue to be valued at fully distributed cost, rather than at fair market value.[5] According to the Commission, this exception is provided because when an affiliate is established solely to provide services to the carrier's corporate family, the benefits of scale and scope are reflected in the affiliates costs.[6] The Commission indicated that these benefits are ultimately transferred to the ratepayers. The Commission concluded that the cost to the ratepayers which would result from requiring a fair market valuation would outweigh any benefit derived from such a valuation.[7]

CBT agrees with this exception and believes it provides a significant benefit to those companies whose corporate structure includes an affiliated service company providing service

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[3] Report and Order, at ¶ 147.

[4] Report and Order, at ¶ 148.

[5] Report and Order, at ¶ 148.

[6] Report and Order, at ¶ 148.

[7] Report and Order, at ¶ 147.

solely to the corporate family. Such benefits are derived from the carrier's ability to avoid the incremental costs which would be associated with developing a fair market valuation for these services. However, some carriers, such as CBT, do not presently employ an affiliated services company to provide centralized administrative services to the corporate family. Instead, these functions are provided either by the regulated carrier itself or through a parent holding company.

In the above situation, these services are provided (i.e. sold) to internal departments of the carrier and to unregulated affiliates of the carrier by either the carrier or the parent holding company. Under such a scenario, the carrier or the parent holding company effectively function as a service company, operating with the intent of "solely" providing services to itself and the corporate family, with the benefits of scale and scope accruing to the ratepayers. However, under paragraph 148 of the Report and Order, companies organized in this fashion appear unable to qualify for the exception, and are required to employ the fair market valuation outlined in paragraph 147.

CBT asserts that this application of these regulations unfairly disadvantages companies such as CBT by requiring that they undertake a burdensome valuation process to determine the fair market value of service for which there is no readily ascertainable fair market value. In its reply comments, BellSouth correctly described the magnitude of this change, stating:

> This is the most onerous, least beneficial change in the affiliate transaction rules proposed in the Notice. Adoption of this rule would require the LECs and their affiliates to incur hundreds of millions of dollars in costs that have absolutely no value to the firm beyond regulatory compliance. The record compiled in the

> comment round of this proceeding reinforces that these cost would be wasted.[8]

Even where information is available, which would be rare, fair market value estimates for services specifically tailored to a particular corporate family would result in significant non-value added expenditures of resources.

In addition to the burdens and expenses outlined above, a significant argument for reconsideration is that any price charged to a carrier's affiliates at higher than fully distributed cost would discourage the purchase of these services by its affiliates, thus depriving the carrier of the ability to recover a portion of its fixed costs. These costs would, as a result, be fully borne by the ratepayers of the carrier.

One of the goals of the Telecommunications Act of 1996 was a telecommunications market that was guided more by competition than by regulation. In this Report and Order, however, the Commission imposes a greater regulatory burden on small and mid-sized LECs by forcing a valuation of services that was not previously required. Accordingly, CBT requests that the Commission grant this Petition for Reconsideration and either modify or waive the valuation rule outlined in paragraph 147 of the Report and Order to allow those carriers who provide services solely to their affiliates to continue to value those services at

[8] Reply Comments of BellSouth, at p. 11.

fully distributed costs. In the alternative, CBT would request that the Commission delay the effective date of the valuation rule outlined in paragraph 147 by at least six months, so that small and mid-sized companies will have adequate time to prepare for the changes in valuation required by the Report and Order.

Respectfully submitted,

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Filed: February 20, 1997

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CERTIFICATE OF SERVICE

The Undersigned herby certifies that copies of the foregoing Petition for Reconsideration of Cincinnati Bell Telephone Company has been sent by first class United States Mail, postage prepaid, or by hand delivery, on February 20, 1997, to the persons listed on the attached service list.

David L Meier

David L Meier

* via hand delivery

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